

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 PA-02 /105 W  
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R 051554Z JUL 78  
FM AMEMBASSY VIENNA  
TO SECSTATE WASHDC 7063  
INFO AMEMBASSY PARIS

UNCLAS SECTION 01 OF 03 VIENNA 06112

USOECD  
PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: NA  
TAGS: OECD, EFIN, ETRD, ELAB, AU  
SUBJECT: MID-YEAR REVISION OF ECONOMIC FORECAST

REF: VIENNA 3239

1. SUMMARY  
MID-1978 REVISION OF FORECASTS BY BOTH AUSTRIAN ECONOMIC  
RESEARCH INSTITUTES REFLECT INCREASED PESSIMISM IN THEIR  
EVALUATION OF INTERNATIONAL AND DOMESTIC ECONOMIC PROSPECTS.  
WHILE THE AUSTRIAN INSTITUTE FOR ECONOMIC RESEARCH (AIER)  
PREDICTION OF LAST MARCH OF A 1.5 PERCENT REAL GROWTH OF  
AUSTRIA'S GNP THIS YEAR WAS LEFT UNCHANGED, FORECASTS OF  
MAJOR COMPONENTS, NOTABLY OF PRIVATE CONSUMPTION AND GROSS  
ASSET FORMATION, WERE REVISED DOWNWARD SUBSTANTIALLY, MAIN-  
LY BECAUSE FIRST QUARTER 1978 DEVELOPMENTS REVEALED THAT  
THE PRECEDING FORECAST HAD HEAVILY UNDERRATED THE EFFECTS  
OF GOA DEMAND RESTRAINTS AS WELL AS THE EXTENT OF RECES-  
SIONAL TRENDS IN OVERALL DEMAND IN GENERAL. ON THE OTHER  
HAND, THE MORE FAVORABLE THAN EXPECTED DEVELOPMENT OF EX-  
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PORTS, TOURISM, INFLATION RATE AND LABOR MARKET THUS FAR  
THIS YEAR IS REFLECTED IN MORE OPTIMISTIC AIER PROJECTIONS  
FOR 1978 AS A WHOLE. THE REVISIONS BY THE INSTITUTE FOR  
ADVANCED STUDIES (FORD INSTITUTE - FI) OF ITS OVERLY OPTI-  
MISTIC FORECAST OF LAST MARCH AFFECTED NOT ONLY GROWTH RA-  
TES OF MAJOR GNP COMPONENTS BUT ALSO THAT OF TOTAL GNP,  
WHICH WAS LOWERED FROM 2.1 PERCENT TO 1.2 PERCENT. FOR 1979,

FI PREDICTS A FURTHER SLOWDOWN TO 0.9 PERCENT, CONTINUED STAGNATION OF INVESTMENTS, AND A DISTINCT DETERIORATION OF THE LABOR MARKET SITUATION, REFLECTED IN A 1.5 PERCENT DECLINE IN EMPLOYMENT LEVELS AND A RISE IN THE UNEMPLOYMENT RATE TO 3.5 PERCENT, WHILE THE IMPROVEMENT OF THE NEGATIVE EXTERNAL BALANCE IS LIKELY TO BE INSIGNIFICANT. FI ALSO

DEVELOPED A MEDIUM TERM FORECAST COVERING THE YEARS 1980 THROUGH 1983 WHICH INDICATES THAT AVERAGE ANNUAL GROWTH OF GNP, PRIVATE CONSUMPTION AND INVESTMENTS WILL REMAIN CONSIDERABLY BELOW LONG TERM AVERAGE GROWTH RATES RECORDED THUS FAR. BOTH INSTITUTES AGREE THAT, GIVEN THE CONTINUATION OF A FLEXIBLE HARD CURRENCY POLICY AND A PERSISTENT SLUMP OF WORLD MARKET PRICES, DOMESTIC INFLATION RATE WILL DECLINE FURTHER, WHILE LABOR MARKET PROBLEMS WILL GIVE GROWING REASON FOR CONCERN, AND BALANCE OF PAYMENT PROBLEMS WILL CONTINUE FOR SEVERAL YEARS. THEY ALSO CONCUR IN THE VIEW THAT, CONSIDERING THE LARGE AMOUNT OF UNUTILIZED CAPACITIES, THE RECENT REDUCTION OF INTEREST LEVELS (REPORTED SEPARATELY) WILL NOT SUBSTANTIALLY STIMULATE INVESTMENT IN THE NEAR FUTURE. IN THEIR VIEW THERE IS NO HOPE THAT EVENTUAL STIMULATING MEASURES, IF ANY, BY OTHER COUNTRIES IN THE WAKE OF THE BONN WORLD ECONOMIC SUMMIT MIGHT PREVENT THE INTERNATIONAL RECESSION WHICH THREATENS FOR THE NEXT TWO YEARS AND IS LIKELY TO HIT AUSTRIA MORE SEVERELY THAN BEFORE. END SUMMARY.

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2. LATEST 1978 FORECASTS ARE HIGHLIGHTED BELOW. PROJECTIONS OF LAST MARCH ARE ADDED FOR COMPARISON. ALL CHANGES ARE IN PERCENT UNLESS OTHERWISE INDICATED:

-	AIER	FORD INSTITUTE		
-	FORECAST OF	FORECAST OF		
-	JUN 78	MAR 78	JUN 78	MAR 78
-	----- FOR THE YEAR 1978 -----			
REAL GNP	1.5	1.5	1.2	2.1
REAL GNP				
(EXCL. AGRICULTURE)	1.5	1.5		
NOMINAL GNP (AS BILL.,				
CURRENT PRICES	835.0	835.4	838.5	839.2
GNP DEFLATOR	4.0	4.0	4.8	4.0
PRIVATE CONSUMPTION (REAL)	0.5	1	0.5	1.8
GROSS ASSET FORMATION (REAL)	0	1.5	-0.6	3.0
- OF WHICH EQUIPMENT	-2	0	-5.1	2.2
- CONSTRUCTION	1.5	3	3.1	3.5
INVENTORIES (CHANGES IN				
CURRENT AS BILL.)	6.9	4.4	6.0	7.3
COMMODITY EXPORTS (REAL)	5.5	4.5	4.7	3.5

(NOMINAL) 5.0 7.5 4.2 4.9  
 EXPORTS OF GOODS AND SER-  
 VICES (REAL) 4.5 4.5 4.1 3.6  
 - (NOMINAL) 6.5 8.5 5.8 6.8

- AIER FORD INSTITUTE  
 - FORECAST OF FORECAST OF  
 - JUN 78 MAR 78 JUN 78 MAR 78  
 - ----- FOR THE YEAR 1978 -----

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 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06  
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 FM AMEMBASSY VIENNA  
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COMMODITY IMPORTS (REAL) -0.5 -1 -0.6 0.4  
 - (NOMINAL) 0.5 2 0.3 2.2  
 IMPORTS OF GOODS AND  
 SERVICES (REAL) 0 1 -0.6 1.8  
 - (NOMINAL) 2 5 1.2 4.8  
 EXPORT PRICES -0.5 3 -0.5 1.4  
 IMPORT PRICES 1 3 1.0 2.0  
 CONSUMER PRICES 3.75 4.0 3.8 3.9

EMPLOYMENT GROWTH 0.2 0 0.3 0.3  
 UNEMPLOYMENT RATE (PERCENT) 2.4 2.5 2.5 2.5  
 LABOR COSTS (PER PRODUCTION  
 UNIT) 2-3 5.0 4.5  
 PER CAPITA PAYROLLS 7.75 8 8.2 7.7

EXCLUDING CHANGES IN THE METHOD OF PAYMENT OF FAMILY ALLOW-  
 ANCES, INCREASE IN PAYROLLS ESTIMATED AT ABOUT 6.5 PERCENT.  
 ACCORDING TO WIFO, INDUSTRIAL PRODUCTIVITY WILL INCREASE

3.5 PERCENT, WHICH ON THE BASIS OF THE ESTIMATED INCREASE IN WAGE LEVELS SUGGESTS AN INCREASE IN INDUSTRIAL UNIT LABOR COSTS BY BETWEEN TWO AND THREE PERCENT. IN THE EXPORT INDUSTRY, THIS COST INCREASE MIGHT BE AUGMENTED TO

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6 PERCENT GIVEN AN APPRECIATION OF THE AUSTRIAN SCHILLING ESTIMATED AT AN AVERAGE 3 PERCENT ON A TRADE WEIGHTED BASIS. TO RETAIN THEIR MARKET SHARES, EXPORTERS WILL HAVE TO CONTINUE MAKING SUBSTANTIAL PRICE CONCESSIONS TO THEIR CUSTOMERS. ALREADY IN THE FIRST FOUR MONTHS OF THIS YEAR THE REAL GAIN IN COMMODITY EXPORTS BY ABOUT 8 PERCENT (6.3 PERCENT NOMINALLY) WAS PRIMARILY ACHIEVED WITH THE HELP OF A REDUCTION OF EXPORT PRICES BY 2 PERCENT FROM THE YEAR AGO LEVEL, ALTHOUGH INTEGRATION EFFECTS PROBABLY ALSO CONTRIBUTED TO THE BETTER-THAN-EXPECTED EXPORT PERFORMANCE. AS REFLECTED BY THE REVISED PROJECTIONS OF COMMODITY EXPORTS FOR THE CURRENT YEAR, BOTH INSTITUTES ASSUME THAT THE FAVOURABLE TREND OF THE FIRST FEW MONTHS WILL NOT CONTINUE THROUGH THE END OF THE YEAR. IN FACT, THE DEVELOPMENT OF FOREIGN ORDER BOOKS HAS BEEN DETERIORATING LATELY. IMPORTS IN REAL TERMS IN THE FIRST FOUR MONTHS OF THIS YEAR WERE ONLY SLIGHTLY HIGHER THAN EXPECTED AND CLEARLY REFLECTED THE IMPACT OF GOA DEMAND RESTRAINTS. FOR THE YEAR AS A WHOLE, BOTH INSTITUTES NOW PREDICT A DECLINE BY ABOUT ONE HALF OF A PERCENT FROM LAST YEAR'S LEVEL. DUE TO THE

SLOWER-THAN-EXPECTED UPTREND OF IMPORT PRICES (0.6 PERCENT IN THE FIRST FOUR MONTHS), THE FORECAST OF NOMINAL IMPORT GROWTH WAS REVISED DOWNWARD.

3. AIER ALSO REVISED ITS MARCH 1978 FORECASTS OF BALANCE OF PAYMENTS DEVELOPMENTS IN 1978. THE IMPROVEMENT IS TRACEABLE MAINLY TO A MORE OPTIMISTIC EVALUATION OF TOURIST PROSPECTS FOLLOWING THE SATISFACTORY PERFORMANCE THUS FAR THIS YEAR, AND TO HIGHER NET CAPITAL INFLOWS, THE EXTENT OF WHICH HAD BEEN SUBSTANTIALY UNDERRATED IN THE MARCH PROJECTIONS. FIGURES BELOW ARE IN AS BILLION:

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-	AIER FORECAST OF	
-	JUN 78	MAR 78
TRADE DEFICIT (INCLUDING GOLD AND		
TRANSIT TRAFFIC)	- 64.3	- 63.5
OF WHICH COMMODITY TRADE DEFICIT	- 66.3	- 65.7

SERVICES BALANCE	28.5	24.7	
- OF WHICH TOURIST RECEIPTS	65.6	65.0	
- TOURIST EXPENDITURES	35.3	36.5	
UNILATERAL TRANSFERS	- 1.0	- 1.0	
BALANCE OF CURRENT TRANSACTIONS	- 36.8	- 39.8	
LONG TERM CAPITAL FLOWS	16.8	9.8	
ERRORS AND OMISSIONS	20.0	20.0	
CHANGE IN RESERVES (EXCLUDING CHANGES IN FOREIGN CURRENCY VALUES)	0	- 10.0	

4. REVISED 1979 FORECASTS BY THE FI ARE AS FOLLOWS:

NOMINAL GNP AT CURRENT MARKET PRICES AS 877.0 BILLION.  
FOLLOWING CHANGES ARE IN PERCENT: REAL GNP 0.9, GNP DE-  
FLATOR 3.6, PRIVATE CONSUMPTION (REAL) 2.1, GROSS ASSET  
FORMATION (REAL) MINUS 0.7, OF WHICH EQUIPMENT MINUS 3.0,  
CONSTRUCTION 1.0; COMMODITY EXPORTS NOMINAL/REAL 4.4/2.5;  
COMMODITY IMPORTS NOMINAL/REAL 3.5/1.9, EXPORTS OF GOODS  
AND SERVICES NOMINAL/REAL 5.6/2.6, IMPORTS OF GOODS AND  
SERVICES NOMINAL/REAL 4.7/2.1; CONSUMER PRICES 3.6, EM-  
PLOYMENT GROWTH MINUS 1.5, UNEMPLOYMENT RATE 3.5 PERCENT,  
UNIT LABOR COSTS 3.5, PER CAPITA PAYROLLS 5.8. FI ESTIMA-  
TES INVENTORY INCREASE AT AS 2.1 BILLION, I.E. 65 PERCENT  
LESS THAN FORECAST FOR 1978.

5. FI ALSO PREPARED A MEDIUM TERM FORECAST FOR THE YEARS  
1980 THROUGH 1983 WHICH IMPLIES THAT, DESPITE A SLIGHT  
RECOVERY WHICH WILL REACH ITS PEAK WITH A 4.3 PERCENT REAL

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
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FM AMEMBASSY VIENNA  
TO SECSTATE WASHDC 7065  
INFO AMEMBASSY PARIS

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GNP GROWTH IN 1982, AVERAGE ANNUAL GNP GROWTH WILL BE CON-  
FINED TO ABOUT 3.5 PERCENT OR MORE THAN ONE PERCENTAGE

POINT LESS THAN IN THE PAST (4.75 PERCENT). AVERAGE RISE

IN PRIVATE CONSUMPTION BY 3 PERCENT ANNUALLY AND OF INVESTMENTS BY 4 PERCENT WOULD ALSO BE SLOWER THAN COMPARABLE RATES OF 4.75 PERCENT AND 6.5 PERCENT IN PAST YEARS. ASSUMING THAT THE HARD CURRENCY POLICY WILL BE HANDLED SLIGHTLY MORE FLEXIBLY, WAGE GAINS WILL CONTINUE TO BE MODERATE, AND INFLATION RATE TENDS DOWN FURTHER, FI FORECASTS A MAINTENANCE OF INTERNATIONAL COMPETITIVENESS AND A SLIGHTLY FASTER RISE OF EXPORTS THAN OF IMPORTS. HOWEVER, THIS WOULD NOT SUFFICE TO NOTICEABLY IMPROVE THE NEGATIVE EXTERNAL BALANCE, WHICH WOULD RANGE BETWEEN AS11 AND AS 12 BILLION ANNUALLY (CURRENT TRANSACTIONS ADJUSTED FOR ERRORS AND OMISSIONS). FI'S MAIN CONCERN IS THE PROSPECT OF LABOR MARKET PROBLEMS WHICH ARE EXPECTED TO BECOME APPARENT ALREADY THIS FALL AND INTENSIFY RAPIDLY IN THE COMING YEARS. FI PREDICTS A STAGNATION OF EMPLOYMENT AT 1.5 PERCENT BELOW THE CURRENT YEAR'S LEVEL THROUGH 1981 AND - DESPITE FURTHER SHARP RELEASES OF FOREIGN LABOR - AN INCREASE IN THE UNEMPLOYMENT RATE TO 4.0 PERCENT IN 1980 AND MORE LATER ON, ESPECIALLY BECAUSE A RISING

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NUMBER OF SCHOOL LEAVERS WILL COINCIDE WITH A SHRINKING NUMBER OF VACANCIES.

6. WITHOUT EXPLICITLY REFERRING TO THE REVISED FORECASTS OF THE TWO RESEARCH INSTITUTES, IN A TALK TO THE PRESS VICE CHANCELLOR AND FINANCE MINISTER ANDROSCH DISPLAYED CONSIDERABLY GREATER OPTIMISM. IN HIS VIEW, IN THE PERIOD SINCE THE INTRODUCTION OF THE GOA AUSTERITY MEASURES LAST FALL, THE ECONOMY DEVELOPED BETTER THAN EXPECTED. ESPECIALLY, DUE TO THE VERY MODERATE WAGE GAINS AND THE CONTINUED HARD CURRENCY COURSE, LABOR COSTS AND INFLATION RATE DEVELOPED MORE SATISFACTORY THAN IN THE MAIN COMPETITOR COUNTRY FRG. ASIDE FROM FACILITATING THE IMPORTATION OF STABILITY, THE HARD CURRENCY POLICY, WHICH IN ANDROSCH'S VIEW SHOULD EVEN BE INTENSIFIED, HELPED TO SPEED UP STRUCTURAL ADJUSTMENTS. ALSO IN THE EVALUATION OF AUSTRIA'S MEDIUM TERM ECONOMIC PROSPECTS, ANDROSCH DID NOT SEEM TO SHARE THE PESSIMISM OF THE TWO RESEARCH INSTITUTES.

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